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SUBJECT: NORWEGIAN CENTRAL BANK WEATHERS GLOBAL CRISIS

¶1. (SBU) Summary. During a February 27 meeting with Econ Officer, Norwegian Central Bank (Norges Bank) Deputy Governor Jan Qvigstad candidly discussed the tepid Norwegian economy withstanding the global financial blizzard. Fending off icy credit markets and snowballing unemployment claims, the GON is hotly relying on a stimulus package to thaw stringent bank lending practices. Discussing the Icelandic market meltdown, Qvigstad had warm words for the interim Icelandic Central Bank governor. End Summary.

Warming Up Bank Lending

¶2. (SBU) Qvigstad placed high hopes on the implementation of an approximately 8 billion USD bank stabilization fund launching in March, available for Norwegian institutions. Qvigstad pointed out that the GON balances a fine line: lend money to banks, but not be overly generous. Liquidity is the key goal: pushing banks accepting the funds to increase capital by extending their own loans. He warned that some smaller banks will inevitably have problems, despite available GON funds. Wrapping up his summary, Qvigstad emphasized the financial services industry could not (nor should not) rely solely on a GON bail-out.

¶3. (SBU) Qvigstad pointed out that the Scandinavian model to rescue failing lending institutions should not be misconstrued as permanent nationalization. Rather, the Norwegian bank crash of the early 90s involved the GON buying up banks but having a definite exit strategy. The GON's prior strategy had a temporary ownership in they sold off its equity interests in previously-rescued banks such as Nordea and Fokus at sizable profits. (Note: Norway's largest bank, DnBNOR, still remains majority owned by the GON). The GON approach was not to create "bad banks" of toxic holdings. Rather, the GON would inject capital and immediately tackle writedowns. Qvigstad highlighted a February 3, 2009 Financial Times article from Norges Bank Governor General Gjedrem, outlining Norway's prior bank rescue and pointing out that a profitable exit strategy is possible.

Other Chilling Issues

¶4. (SBU) The Deputy Governor painted some gloomy financial statistics. Unemployment could reach up to 5%, a frigid forecast for a country with massive gas/oil exports, historically confronting functionally non-existent unemployment. He mentioned that temporary workers, collecting the GON's generous unemployment benefits (mostly Polish) are placing short-term systemic strains. Foreign

workers are allowed a maximum of one year's worth of benefits. He predicted Norway's GDP would fall, a sign of how closely the energy economy was tied to the drastically fluctuating hydrocarbon prices. Finally, Qvigstad sees home prices on a steady decline.

Icing on the Cake: Iceland

15. (SBU) Discussing the European economic scene, Qvigstad mentioned that the temporary Icelandic Central Bank Governor, Svein Harald Oeygard, was a tough Norwegian who would be ready on "day one." (Note: today really was day one: Oeygard's appointment was announced this morning.) Qvigstad saw Oeygard gathering a hardworking, new team which will follow any stringent International Monetary Fund recommendations.

Global Financial Mercury Rises, But Norway is a Cool Customer

16. (SBU) Comment: Norway's economic pressures are ultimately tied to the rise and fall of oil and gas prices. Compared to other European countries, including their Scandinavian cousins (such as heavy-industry oriented Sweden and financial market-dependent Iceland), Norway is in excellent shape. Nevertheless, we question whether a meteoric rise in unemployment, and a possible downward trend in home prices, will cause insulated Norwegians to realize the unaccustomed, biting sting of a glacial global economy.

WHITNEY